

STATEMENT OF THE HONORABLE WILLIAM D. DELAHUNT

HOUSE SUBCOMMITTEE ON CAPITAL MARKETS

**HEARING ON “STABILIZING INSURANCE MARKETS FOR
COASTAL CONSUMERS”**

SEPTEMBER 13, 2006

I would like to take this opportunity to commend the Committee for holding hearings today on this important issue and to thank you for allowing me to present my views in writing.

In recent years, we’ve watched as the remnants of hurricanes and tropical storms have battered our coasts and eroded our beaches. We’ve crossed our fingers that century-old dams and sea walls wouldn’t burst and flood vital downtown economic areas. While my district has been extraordinarily lucky in terms of natural disasters, it has by no means escaped unscathed.

In recent months, thousands of my constituents, homeowners and businesspeople alike, have received the news that their insurance premiums have gone up, or worse, that they’ve been dropped altogether – all because some bureaucrat has decided that they’re too much of a risk to insure simply because of their address. Today, it is harder than ever before for coastal homeowners to obtain the insurance coverage they need in order to protect themselves.

This reality has hit home in a very real way for the people of the Tenth District of Massachusetts. My district, encompassing the entirety of Cape Cod, has as much or more coastal exposure as any in the country. The typical homeowner living in a coastal area today faces higher costs for coverage than ever before, in addition to the real risk that coverage will be unavailable to them altogether. These problems aren’t unique to the people of the Tenth Congressional District of Massachusetts. From the Gulf Coast to the Outer Banks, from the Atlantic to Pacific Ocean, homeowners are faced with the same choice; stay and risk losing everything or sell because they cannot pay their insurance premiums.

Today, the average premium on Cape Cod is \$1,306. Thousands of area homeowners, living along the coast, have been confronted with double-digit hikes in their home insurance premiums due to growing fears that the Northeast is overdue for a major hurricane. A woman from Eastham in my district recently saw her premium rise from about \$800 to nearly \$1,600 and expects her bill to go up even more, to about \$2,000. All this despite the fact that she has gone 20 years without an insurance claim.

In Massachusetts, there is a mechanism to reimburse companies for losses from coastal damages, called the FAIR plan. The FAIR Plan was designed to be the state’s insurer of

last resort, a “backstop” to the private insurance market. But today it has become a primary insurer because there is simply no other option. As private insurers have withdrawn from our coast, the FAIR Plan has grown into the principal insurance carrier for the southeastern coastal region. The FAIR Plan insures some 175,000 Bay State homes that other insurers refuse to cover - including one-third of all Cape residences.

Unfortunately for my constituents, the Massachusetts State Insurance Commissioner earlier this summer approved a FAIR plan that would significantly boost the price of homeowner’s insurance policies of last resort. So, even these state level plans are being strapped or overburdened. This system is not working in Massachusetts, any more than it is working in other areas of the country that have experienced devastating hurricanes and other natural disasters.

Clearly, the industry needs to examine ways that it can leverage its considerable equity and build up reserves – just like any other business. Foul weather is a fact of life. Hurricanes, tropical storms, floods are not going away anytime soon. When disaster strikes, people have come to expect that after years of paying faithfully on time and being a good customer, that their insurance provider will pay them back for their losses – especially those families and individuals that don’t have the financial resources to start all over again.

Congress can, and should, send a clear message to the states that we too, will be there when the time comes. We can establish re-insurance funds to ensure that the industry doesn’t collapse under the weight of a catastrophic event, like Hurricanes Rita and Katrina. We can invest in rebuilding our beaches and marshes – natural barriers that protect low-lying areas from flooding; and, we can repair our aging infrastructure – levees, dams and seawalls – that so often fail as a result of years of unrelenting pounding by Mother Nature. The small price we’d pay for investing in these preventative measures pales in comparison to the billions we’d lose in lost wages, property, tourism – even human life.

We should explore a variety of different options and listen to a wide group of stakeholders, including homeowners, consumer advocates, local officials, and the insurance industry itself. I look forward to hearing the insights of other members and knowledgeable parties as we look for solutions to this critical problem facing coastal homeowners.